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SUBJECT: VENEZUELA INCREASES REGULATED FOOD PRICES TO
BOLSTER ELECTION PROSPECTS

REF: CARACAS 1081

¶1. (SBU) SUMMARY: On August 11, the Bolivarian Republic of Venezuela (BRV) freed prices for a number of price-controlled food products and raised maximum prices for several others. Press reports indicate the BRV has increased regulated food prices over thirty times since October 2007. Although the most recent round of price increases of up to 110 percent will contribute to inflation, keeping food on the shelves is of greater concern to the BRV in the run-up to the November elections. Many producers argue the increases are insufficient and will not boost domestic food output enough to satisfy growing consumer demand. END SUMMARY.

¶2. (SBU) In response to the increasing scarcity of several controlled price food products (reftel), on August 11 the BRV increased the regulated prices of eight basic food basket items and freed prices for seven others. The price increases range from a one percent increase for pork chops to a 110 percent increase for tomato sauce.

¶3. (SBU) Although years of pressure by industry groups played a role in securing the price increases, industry insiders believe the most important factor in the BRV's decision was the need to keep food items popular with lower income groups on the table. Several members of the VenAmcham Processed Food Products Committee told the Agriculture Attache on August 14 they are not surprised the BRV is taking action to reduce shortages ahead of the November elections, noting that the BRV considers food scarcity more damaging to its prospects in the November elections than inflation.

¶4. (SBU) The President of the Federation of Associations and Chambers of Commerce and Industry (Fedecamaras) told the press the most recent price increases, justified as the BRV's attempt to ensure supply, are yet another example of the failure of regulated prices to contain inflation. According to the UN's Food and Agriculture Organization (FAO), average inflation in terms of food prices over the first five months of the year among 16 Latin American countries was 7.2 percent, while in Venezuela the figure was 15.3 percent.

¶5. (SBU) Producer reaction to the price increases has varied by how close industry representatives are to officialdom. While "Bolivarian" producers have registered their approval of the price increases, the larger associations critical of the BRV argue the new prices do not cover the costs of production and will not sufficiently encourage domestic production. Although shortages of eggs and milk became much less common when the BRV freed their prices, most producers are not optimistic the BRV will be willing to apply this lesson across the board.

